

Message Text

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ACTION EUR-25

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SP-03 USIA-15 TRSE-00 SAJ-01 SS-20 AEC-11 AECE-00

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E. O. 11652: N/A

TAGS: TGEN, TECH, GW

SUBJECT: OFFSET - RESEARCH AND DEVELOPMENT; URANIUM
ENRICHMENT

REFS: (A) BONN 14599, (B) BONN 14479, (C) BONN 14249

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1. SUMMARY: EMBOFF REVIEWED WITH FRG TECHNOLOGY
MINISTRY OFFICIALS THE STATUS OF US/FRG NEGOTIATIONS
TO IMPLEMENT ARTICLE 4B OF OFFSET AGREEMENT
(SCIENTIFIC AND TECHNOLOGICAL COOPERATION) AND
FORCEFULLY URGED MORE FORTHCOMING FRG RESPONSE ASAP,
EMPHASIZING THAT NEED FOR "ADDITIONALITY" IN "CIVILIAN
PROCUREMENT" HAD BEEN WELL ESTABLISHED DURING
NEGOTIATION OF PRESENT AND PRIOR OFFSET AGREEMENTS.
AS ANTICIPATED (SEE REF A), TECHMIN REP COUNTER-
ATTACKED WITH ASSERTION THAT AEC "UNACCEPTABLE"
PROPOSALS TO IMPLEMENT PURCHASE OF ENRICHED URANIUM
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UNDER ARTICLE 4A OF THE AGREEMENT DID NOT RPT NOT SHOW

ANY RECOGNITION OF "ADDITIONALITY" CRITERION. HE CHARACTERIZED THIS AS EVIDENCE OF PROFOUND US/FRG DIFFERENCES OF OPINION ABOUT INTERPRETATION OF OFFSET AGREEMENT WHICH MUST BE RESOLVED. EMBOFF PRESSED FOR ADDITIONAL DATA AND NEW PROPOSALS WHICH TECHMIN REPS PROMISED TO PROVIDE (SEE PARA 7).

WE ARE MAKING SOME PROGRESS BUT DIFFICULT PROBLEMS REMAIN AND THE FRG FAILURE TO MAKE "NEW" MONEY AVAILABLE TO THE TECHMIN PRESENTS A FORMIDABLE OBSTACLE TO THE IMAGINATIVE PROGRAM FORESEEN BY USG. EMBASSY RECOMMENDS THAT USG BE PREPARED TO PRESENT OUR VIEWS AT AN APPROPRIATELY HIGH LEVEL DURING VISIT TO WASHINGTON BY DR. SCHMIDT-KUESTER AND ESPECIALLY DURING VISIT OF AMBASSADOR HERMES (REFS B AND C). WE WILL CONTINUE OUR EFFORTS HERE. EMBASSY WOULD APPRECIATE REPORT ON AEC DISCUSSIONS WITH GERMAN DELEGATION ABOUT PROCUREMENT OF ENRICHED URANIUM UNDER ARTICLE 4A OF OFFSET AGREEMENT. END SUMMARY

2. EMBASSY COUNSELOR FOR S&T AFFAIRS MET WITH GROUP OF OFFICIALS REPRESENTING FRG MINISTRY OF RESEARCH AND TECHNOLOGY (TECHMIN). EMBOFF REVIEWED HISTORY AND STATUS OF US EFFORTS TO IMPLEMENT PROGRAM OF SCIENTIFIC AND TECHNOLOGICAL COOPERATION TO BE FINANCED BY FRG UNDER THE FY 74-FY 75 OFFSET AGREEMENT, EXPRESSED ON BEHALF OF USG GREAT DISAPPOINTMENT THAT FRG HAD FAILED TO SEIZE THIS OPPORTUNITY TO CREATE NEW IMAGINATIVE COOPERATIVE PROGRAM AND EMPHASIZED THAT CONCEPT OF "ADDITIONALITY" FOR CIVILIAN PROCUREMENT UNDER OFFSET WAS FIRMLY ESTABLISHED DURING NEGOTIATION OF CURRENT AND PRIOR AGREEMENTS. EMBOFF FORCEFULLY URGED FRG TO PROVIDE THE ADDITIONAL DATA REQUESTED FOR THOSE PROJECTS THAT US HAD INDICATED ITS WILLINGNESS TO CONSIDER, AS WELL AS NEW PROPOSALS IN OTHER AREAS OF SPECIFIC INTEREST TO FRG.

3. TECHMIN REP (LOOSCH, "DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS) IMMEDIATELY CHALLENGED NECESSITY FOR "ADDITIONALITY", OFFERING TWO ARGUMENTS:

A. DISCUSSIONS WITH USAEC ABOUT SUPPLY OF ENRICHED LIMITED OFFICIAL USE

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URANIUM UNDER ARTICLE 4A OF THE OFFSET AGREEMENT HAVE INDICATED THAT AEC IS NOT SEEKING "ADDITIONALITY" - IN FACT, QUITE THE CONTRARY.

B. FRG FINANCE MINISTRY, IN ITS INSTRUCTIONS TO TECHMIN ABOUT S&T PROJECTS UNDER ARTICLE 4B HAS MADE CLEAR THEIR INTERPRETATION THAT "ADDITIONALITY" WOULD NOT BE A REQUIREMENT FOR COMPLIANCE WITH THE TERMS OF THE AGREEMENT.

4. TECHMIN REP THEN BRIEFED EMBOFF ABOUT RESULTS OF
AUGUST 19-20 DISCUSSIONS BETWEEN FRG DELEGATION AND AEC
REPRESENTATIVES IN WASHINGTON. DRAWING ON REPORT BY
GERMAN DELEGATION, TECHMIN REP DESCRIBED SEVERAL
ALTERNATIVES OFFERED BY THE AEC. ALL, IN FRG VIEW, WERE
UNACCEPTABLE AND NONE REQUIRED "ADDITIONALITY." SEVERAL,
IN FRG VIEW, INCLUDED CONCEPT THAT PRESENT AEC CONTRACT

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COMMITMENTS TO GERMAN UTILITIES WOULD BE CHARGED,
DIRECTLY OR INDIRECTLY, AGAINST THE QUANTITY OF
ENRICHED URANIUM THE US IS OBLIGATED TO SUPPLY TO THE
FRG UNDER THE OFFSET AGREEMENT. TECHMIN REPS POINTED
OUT THAT SUCH A PROCEDURE WOULD CERTAINLY VIOLATE THE
"ADDITIONALITY" CONCEPT.
EMBASSY COMMENT: WE WILL NOT ATTEMPT TO REPORT THE
VARIOUS ALTERNATIVES ALLEGEDLY OFFERED BY THE AEC AS

SEEN THROUGH GERMAN EYES. HOWEVER, IN GENERAL, FRG REPS CHARACTERIZED THEM AS EFFORTS TO ACCOMMODATE WITHIN THE OFFSET CONTEXT THE PROBLEMS IN ENRICHED URANIUM SUPPLY WHICH THE US FACES DUE TO ANTICIPATED UNDER CAPACITY AND THE PRIVATE VS PUBLIC CONTROVERSY IN CONSTRUCTION OF NEW ENRICHMENT PLANTS. TECHMIN REPS MENTIONED WITH EXPRESSIONS OF DISMAY ONE OF THE COMPLEX AEC PROPOSALS WHICH EVENTUALLY MIGHT COST THE FRG SOME \$72 PER SWU FOR ENRICHMENT SERVICES. IN THEIR VIEW, THE OFFSET AGREEMENT OBLIGATES THEM TO SPEND DM 200 LIMITED OFFICIAL USE

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MILLION FOR ENRICHED URANIUM AND SIMILARLY REQUIRES THE AEC TO SUPPLY THIS MATERIAL UNDER TERMS NO WORSE THAN THOSE EXISTING AT THE CONCLUSION OF THE OFFSET PERIOD, JUNE 30, 1975, OR ANY EARLIER DATE ON WHICH THE SUPPLY AGREEMENT IS SIGNED. TECHMIN REPS BELIEVED NEGOTIATIONS FOR ENRICHED URANIUM WERE INESCAPABLY ASSOCIATED WITH THE NEGOTIATION OF R&D UNDER THE SAME ARTICLE OF THE OFFSET AGREEMENT. THERE WERE PROFOUND US/FRG DIFFERENCES IN THE INTERPRETATION OF THIS ARTICLE OF THE AGREEMENT WHICH MUST BE RESOLVED BEFORE NEGOTIATIONS COULD PROCEED MUCH FURTHER. EMBOFF (SEE REF A) DID NOT RESPOND TO FRG POINTS WITH RESPECT TO PROCUREMENT OF ENRICHED URANIUM UNDER OFFSET.

5. PAST FRG PROPOSALS FOR R&D UNDER OFFSET (REF F) WERE REVIEWED AGAIN IN SOME DETAIL. IN GENERAL, TECHMIN REPS CONTINUE TO FIND IT DIFFICULT TO ACCEPT THE US POSITION. THEY HAVE BEEN ADVISED BY FINANCE MINISTRY THAT "ADDITIONALITY" IS NOT REQUIRED AND, MOREOVER, EMPHASIZE THAT JULY 1, 1973 IS THE BEGINNING OF THE TWO-YEAR OFFSET PERIOD. CONSEQUENTLY, THEY ARGUE THAT ANY PROJECT BEGUN AFTER THIS DATE SHOULD BE ELIGIBLE FOR OFFSET CREDIT. FURTHERMORE, ANY R&D PROGRAM UNDER THE OFFSET MUST BE FINANCED FROM THE CURRENT BUDGET OF THE TECHNOLOGY MINISTRY.

6. EMBOFF REITERATED JUDGEMENTS REACHED BY USG OFFICIALS ABOUT THE PROJECTS AND THE SCIENTIFIC PROCUREMENT PROPOSED BY FRG TO DATE, I.E. ONLY THOSE PROPOSALS IN PARAGRAPHS 3B, 3D AND 4 OF REF F COULD BE CONSIDERED. WE WOULD WELCOME COOPERATION IN HEALTH-RELATED RESEARCH PROJECTS WHICH WOULD BE SUBSEQUENT STEPS IN PROGRAM MENTIONED IN PARA 3A, REF F, SUCH AS ENVIRONMENTAL TISSUE BANK, BIOMATERIALS, MUTAGENESIS, PHARMACOLOGY AND AEROSOL TOXICOLOGY (SEE REF E). EMBOFF URGED FRG TO MAKE RELEVANT PROPOSALS. COAL TECHNOLOGY R&D, WHICH DR.SCHMIDT KUESTER PLANNED TO DISCUSS IN WASHINGTON WAS ANOTHER POSSIBLE AREA OF MUTUAL INTEREST. EMBOFF URGED FRG TO

OUTLINE ITS INTERESTS ASAP TO ASSIST US CONSIDERATION
AND OUR RESPONSE TO DR. S-K ON SEPTEMBER 23.

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7. ALTHOUGH TECHMIN REPS PROFESSED TO BELIEVE THAT
QUESTIONS OF INTERPRETATION OF THE AGREEMENT, THE PRO-
CUREMENT OF ENRICHED URANIUM AND FUNDING IMPEDE
PROGRESS IN THIS NEGOTIATION, THEY DID AGREE TO MAKE
EVERY EFFORT PROMPTLY TO PROVIDE ADDITIONAL DATA, AS
FOLLOWS:

- A. NEW PROPOSALS IN HEALTH FIELD, I.E.
ENVIRONMENTAL TISSUE BANK, BIOMATERIALS, ETC.
AS FOLLOW-UP TO FRG PROPOSAL FOR JOINT
TOXICOLOGICAL RESEARCH (SEE PARA 3A, REF. F)
WHICH WAS REJECTED BY US IN OFFSET CONTEXT.
- B. MORE INFORMATION ABOUT PROPOSED PROJECT FOR
COOPERATION IN REACTOR SAFETY (PARA 3B, REF F)
AND AN OUTLINE OF AN EXPANDED PROGRAM FOR
COOPERATION IN THIS AREA WHICH FRG HAS OFTEN
SUGGESTED AS FALL-BACK POSITION TO FILL GAP IN
OFFSET R&D PROGRAMS.
- C. MORE INFORMATION ABOUT FRG PROPOSAL FOR JOINT
VENTURES IN URANIUM PROSPECTING.
- D. NEW PROPOSALS FOR US/FRG COOPERATION IN R&D ON
MANAGEMENT OF RADIOACTIVE WASTES (UNDER NEW
MEMORANDUM FOR COOPERATION WITH USAEC).
- E. NEW PROPOSALS FOR US/FRG COOPERATION IN COAL
TECHNOLOGY R&D.

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8. FRG REPS REMAIN TROUBLED BY FOLLOWING POINTS:

- A. AEROS B PROJECT. (SEE PARA 3C AND 3G, REF F.)
IN SPITE OF FIRM US REJECTION OF THIS PROJECT
IN OFFSET CONTEXT, (SEE PARA 1, REF E) WHICH
EMBOFF REITERATED, TECHMIN REPS ASSERTED THAT
THEY DID INFORM NASA IN WRITING THAT THIS
PROJECT WOULD BE FINANCED UNDER OFFSET. THEY
BELIEVE THESE COMMUNICATIONS AND DISCUSSIONS
OCCURRED AFTER EFFECTIVE DATE OF OFFSET
AGREEMENT, JULY 1, 1973. TECHMIN WILL SEARCH ITS
FILES FOR EVIDENCE AND RESERVED RIGHT TO RAISE
THIS QUESTION AGAIN.
- B. SYMPHONIE LAUNCH (SEE PARA 3E, REF F): TECHMIN
REPS NOTED THAT SECOND SYMPHONIE LAUNCH WAS ONLY
A POSSIBILITY, NOT A COMMITMENT, IN THE
AGREEMENT WITH US. FURTHERMORE, BUDGET
DIFFICULTIES MIGHT MAKE THIS LAUNCH IMPOSSIBLE

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UNLESS US WERE WILLING TO CREDIT IT AGAINST
OFFSET. THEY IMPLIED THAT THIS PROJECT TOO MIGHT
BE RAISED AGAIN IN OFFSET CONTEXT.

- C. ADDITIONALITY: TECHMIN REPS PLAN TO REVIEW WITH
FRG NEGOTIATORS AND OTHER RESPONSIBLE OFFICIALS
THE EXTENT TO WHICH "ADDITIONALITY" IS A
CRITERION FOR THIS OFFSET R&D PROGRAM. THEY
SPECULATED THAT A MEETING OF US/FRG
NEGOTIATORS MIGHT BE REQUIRED TO RESOLVE THIS
QUESTION AND TO DETERMINE ITS APPLICABILITY TO
THE PROBLEM OF ENRICHED URANIUM SUPPLY UNDER
ARTICLE 4A OF THE AGREEMENT.

9. PROGRESS IS SLOW AND OUR CONTACTS

RELUCTANT BUT WE ARE MAKING SOME HEADWAY. THE TECHNOLOGY MINISTRY MUST STILL FUND THESE OFFSET R&D PROJECTS FROM ITS EXISTING BUDGET AND WE DETECT NO SOFTENING ON THIS POINT. HOWEVER, SCHMIDT-KUESTER'S WILLINGNESS TO FINANCE US-FRG COOPERATION IN COAL TECHNOLOGY R&D FROM THE CALENDAR YEAR 1974 BUDGET OF HIS MINISTRY OFFERS ONE WAY TO MOVE AHEAD. WE ASSUME THAT THE FRG WILL ALSO PROPOSE AN EXPANDED PROGRAM OF R&D ON REACTOR SAFETY AND MANAGEMENT OF RADIOACTIVE WASTES UNDER AGREEMENTS FOR COOPERATION WITH THE AEC WHICH THE TECHMIN WOULD ALSO BE WILLING TO FINANCE FROM THEIR OWN FUNDS. EMBOFF EMPHASIZED NEED FOR PROMPT AND URGENT ACTION TO COMPLETE OFFSET REQUIREMENTS. FRG REPS RESPONDED THAT IT IS PROBABLY TOO LATE TO COMPLETE PLANNING A MEANINGFUL PROGRAM BEFORE END FY 75. THEY ASSUME, THEREFORE, THAT SOME KIND OF "PRE-PAYMENT" WOULD BE POSSIBLE ONCE AGREEMENT IS ACHIEVED ON AN ACCEPTABLE PROGRAM. WE RECOGNIZE, OF COURSE, THE VERY REAL PROBLEMS OF URANIUM SUPPLY FACING THE AEC IN THEIR NEGOTIATIONS WITH THE FRG. WE ARE CONFIDENT THAT TECHMIN OFFICIALS ALSO UNDERSTAND THIS SITUATION VERY WELL. THEY ARE CLEARLY USING THIS ISSUE AS A NEGOTIATING TACTIC TO DIMINISH OUR PRESSURE ON THEM FOR NEW, ADDITIONAL S&T PROJECTS WHICH WOULD CUT INTO THEIR CURRENT PROGRAMS OR FORCE THEIR ORIENTATION TOWARD RESEARCH IN THE US. WE SUGGEST THAT US NEGOTIATIONS ON ARTICLE 4A AND ARTICLE 4B OF THE OFFSET AGREEMENT BE CAREFULLY COORDINATED AND WOULD LIMITED OFFICIAL USE

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APPRECIATE A REPORT OF US/FRG DISCUSSIONS TO DATE.

10. ACTION RECOMMENDED: EMBASSY RECOMMENDS THAT FORTHCOMING VISITS BY DR. SCHMIDT-KUESTER (SEPTEMBER 23, REF C) AND AMBASSADOR HERMES (SEPTEMBER 30-OCTOBER 4, REF B) BE USED BY APPROPRIATE HIGH-LEVEL USG OFFICIALS TO MAKE CLEAR OUR POSITION ON ARTICLE 4 OF THE OFFSET AGREEMENT. WE WILL CONTINUE OUR EFFORTS HERE TO PRESS FOR AN ACCEPTABLE PROGRAM OF S&T COOPERATION UNDER ARTICLE 4B, AS OUTLINED IN PARA 7 ABOVE.
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